

In addition to the above recommendations, the ALJ should order SWBT to file amended BNF LRIC studies within 60 days of the ALJ's order incorporating the following Staff recommendations (none of which SWBT agrees with). In the amended studies SWBT should:

1. Delete the Power Investment Factor and its effects (See page 68).
2. Delete the Building Investment Factor and its effects (See page 71).
3. Apply a Rate of Return no higher than that used in the BNF LRIC studies filed in Project No. 14091 (See page 81).
4. Delete the Building and Grounds Maintenance Factor and its effects (See page 88).

## **Personalized Ring Service LRIC Study**

### **VI. Explanation of the Personalized Ring Service LRIC Study**

This service study, like the Personalized Ring BNF LRIC study, is actually more than one Personalized Ring study, and gives results for three types of Personalized Ring Residential services and three types of Personalized Ring Business Services. These services are Personalized Ring 1 Line Residential, Personalized Ring 2 Line Residential (1st Line), Personalized Ring 2 Line Residential (2nd Line), Personalized Ring 1 Line Business, Personalized Ring 2 Line Business (1st Line), and Personalized Ring 2 Line Business (2nd Line).

The volume sensitive recurring unit costs for each of these services are listed in the Personalized Ring Service LRIC study on the same Results Page. These volume sensitive recurring unit costs are composed of the volume sensitive recurring BNF unit costs from the Personalized Ring BNF LRIC studies, and a volume sensitive recurring non-BNF unit cost for the publishing of the additional lines in a telephone directory. In order to develop this non-BNF unit cost for each type of Personalized Ring service, the following steps are taken:

1. The Cost of an Additional Directory Listing, taken from the 1992 Texas

Directory Additional Listing cost Study, is multiplied by a CPI-U factor to bring it up to 1996 dollars.

2. This Adjusted Cost of an Additional Directory Listing is multiplied by a levelized inflation factor for the 1996-1998 study years.
3. The 0.013% Commission Assessment Factor is then applied to this Inflated Additional Directory Cost, resulting in the Total Additional Directory Listing Cost, or the Volume Sensitive Recurring Non-BNF Cost for a Personalized Ring Service Type.
4. This Total Additional Directory Listing Cost is then added to the appropriate volume sensitive recurring BNF cost from either the Business or the Residential Personalized Ring BNF LRIC study to get the Total Annual Cost for either Business or Residential Personalized Ring Service. The equation below shows this process for the Residential Personalized Ring Service.

Additional Directory Listing Cost \*

CPI Factor \*

Inflation Factor \*

(1 + Commission Assessment Percentage) +

Annual BNF Cost from Residential Personalized

Ring BNF LRIC Study =

**Total Annual Cost for Residential  
Personalized Ring Service**

5. The Total Annual Cost for the Personalized Ring Service Type is then multiplied by the demand for the type of Business or Residential Personalized Ring Service

being costed, resulting in the Total Volume Sensitive Recurring Costs for that type of Personalized Ring service. When divided by twelve, the result is the Volume Sensitive Recurring Cost per Month for that type of Personalized Ring Service. The equation below shows this process for the Single Line Residential Personalized Ring Service.

$$\frac{(\text{Tot. An. Cost for Res. Pers. Ring Svc.} * \text{Demand for Single Line Res. Pers. Ring Svc.})}{12} =$$

Vol. Sens. Recurring Cost per Month for Single Line Res. Pers. Ring Svc.
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This cost is reported on the Results Page of the Personalized Ring Service LRIC Study separately. Also reported on this Results Page is the volume insensitive recurring cost for DMS-100 offices, as developed in the Personalized Ring BNF LRIC studies.

Note that the demand for both of the lines in the Two Line Residential Personalized Ring Service is the same. In other words, all customers who have the first line in the Two Line Residential Personalized Ring Service also have the second line, and vice versa. This condition also holds for the Two Line Business Personalized Ring Service. Therefore, while there may be six different lines giving the monthly volume sensitive recurring costs for Personalized Ring Service lines (for Single Line Residential, Two Line Residential - 1st line, Two Line Residential - 2nd line, Single Line Business, Two Line Business - 1st line, and Two Line Business - 2nd line), only (at most) four of the values on these lines actually differ (since the costs for Residential Two Line will be the same for each line, and the cost for Business Two Line will be the same for each line).

## **VII. Staff Review and Recommendations**

Other than the inclusion of the volume sensitive recurring non-BNF and volume sensitive non-recurring unit costs for Personalize Ring Service, these studies were performed, and Staff has reviewed them, in the same manner as SWBT's Service LRIC Studies for Call Forwarding, Call Waiting, and Touchtone (Project No. 14110). Staff's Comments and Recommendations concerning the above studies were filed on June 16, 1995 (see attached General Counsel's Comments on SWBT's LRIC Studies Filed in Project No. 14110 (GC Comments on 14110)).

Staff has verified the calculations used to determine the Volume Sensitive BNF and Non-BNF and Volume Insensitive Recurring Costs for the Personalized Ring Service LRIC study. The method in which SWBT determines these costs appears to be reasonable. However, in computing the Volume Sensitive Non-BNF Recurring Costs, SWBT uses as its levelizing inflation factor a figure based on an incorrect number of capital additions per year.

In order for the inflation factor to levelize inflation throughout the life of the LRIC study (1996 through 1998), there must be an assumption made that capital investment is made in three equal increments. This assumption is integral to the Operating Expense Levelizing Inflation Factor (OLIF) and Capital Investment Levelizing Inflation Factor (CLIF) equations that Staff and SWBT developed for implementation in SWBT's LRIC studies. However, the non-BNF recurring cost that is essential for each Personalized Ring

Service (i.e., the cost of the directory listing) has a levelizing inflation factor applied to it that is based on the assumption that only one capital addition (or one expense incurrence, in this case) occurs in the whole study period. To Staff, this method is inconsistent with the OLIF and CLIF equations Staff recommended for approval, SWBT agreed to, and the ALJ approved for Project No. 14091. Staff recommends that SWBT use a levelizing inflation factor based on the calculations and assumptions agreed to in previously-filed BNF LRIC studies (See GC Comments on Project No. 14091, page 40).

Also, in the calculation of the Volume Sensitive Non-BNF Recurring Cost for the first line of the Business Two Line Personalized Ring Service, the Commission Assessment Factor was not applied. SWBT acknowledges this error and will correct it when amended cost studies are filed for this project.

As in the Personalized Ring BNF LRIC studies, SWBT has failed to identify the existence of common costs in the Personalized Ring Service LRIC studies. Again, SWBT uses the following statement: "This study did not seek to identify any family costs (cost common to groups of BNFs), which might exist." As discussed in GC's Comments on 14091, Section 23 91(h) requires the LECs to "identify all instances in which BNFs and groups of services share significant common costs and shall calculate such common costs." In Project No. 14091, Staff recommended and the ALJ ordered SWBT to "...make an affirmative statement of whether they believe that the BNF or service shares costs with other BNFs or services." Staff understood then and understands now that SWBT may not be able to calculate such common costs, or know exactly which services share costs with the Personalized Ring services for which studies were filed in this project. Staff

recommends that the ALJ order SWBT to state whether or not it believes there to be common costs associated with these services at this time. Staff and SWBT have worked out language to include in the Personalized Ring Service LRIC studies, and future LRIC studies (as needed) to fulfill the requirement of stating the existence of common costs. SWBT has agreed include the appropriate language in the revised Personalized Ring Service LRIC studies

#### **VIII. Summary of Recommendations**

The ALJ should order SWBT to file amended Service LRIC studies within 60 days of the ALJ's order. In the amended studies SWBT should:

1. Apply the appropriate levelized inflation factor in the calculation of the Volume Sensitive Non-BNF Recurring Costs (See page 99).
2. Apply the Commission Assessment Factor in the calculation of the Volume Sensitive Recurring Cost for the first line of the Business Two Line Personalized Ring Service (See page 100).
3. Include the statement(s) agreed upon by Staff and SWBT as to the existence of common costs in the Overview/Methodology Section (See page 100).

It should be noted that SWBT has agreed to implement these recommendations.